

Daily Market Notes**Market Update:****DJIA:** 10246**S&P 500:** 1095**Nasdaq:** 2183**10YR T-Note:** 3.67%**EUR/USD:** 1.391**Gold** 1110**Crude Oil:** 77.05Prices Current as of
12:24 PM

Source: Bloomberg

After declining for three straight weeks, the market has decided for the time being that the course of least resistance is higher. Yesterday's second double-digit advance for the Dow allowed the S&P to achieve its best two-day consecutive rally since last October. So what was the reason for the newfound bullishness after the beating that stocks had taken in January? Apparently, aside from the real reason that things had gotten oversold with the VIX shooting up from under 17 to as high as 28 in this short period of time, another decent economic report, namely December pending home sales, and some good earnings, especially from manufacturing type companies, were offered as to why stocks rose strongly once again.

So for the second day in a row, all of the January worries were put aside – China's credit restrictions on banks, President Obama's plan to control certain bank activities, the record Greek budget deficit – were all forgotten for the time being, as sales of autos of the U.S. manufacturers rose. Of course this was no surprise given the problems at the largest Japanese car maker recently, but it was another piece of good economic news.

Donald M. Selkin

Chief Market Strategist

(212) 417-8017

dselkin@nationalsecurities.com

And for the second day in a row, breadth numbers were strong, as many groups that had gotten sold off lately once again participated in the upside, and this includes particularly the resource, mining and energy sector, most technology stocks, and even the financials.

Jason Wotman

Research Analyst

(212) 417-8264

wotman@nationalsecurities.com

After these two days of strong gains, the market is hesitating today, as early small gains in the indexes turned negative after the 10am release of the January ISM Non-Manufacturing Survey, which did rise to its highest level since May 2008, but the gain to 50.5 came up a tad short of the expectation of 51, and would someone tell me what is the real difference between these two numbers? It was the first expansion in three months, and this is important because these service industries make up almost 90% of the economy. What was encouraging was that the new orders component climbed to the highest level since October 2007. The employment component did rise, but only slightly. This is probably the reason for the negative spin that is being put on this report, especially with the all-important jobs report set for release on

Daily Market Notes

Friday morning. There was also some concern that the service sector growth is lagging the growth in manufacturing that was evident in that report which was released on Monday.

Then there was the ADP estimate for his Friday's important January non-farm payroll report, and they came in with an estimated loss of -22,000 private sector jobs. This was their smallest loss estimate in two years, for what it is worth because their numbers actually were off by a mere 500,000 for the last six months of 2009, so we always have to take their estimates with a grain of salt, so to speak.

The Dow is being restrained by losses in two of its components after their earnings, and this continues the recent pattern of Dow stocks declining after their numbers. In fact, most Dow stocks that have reported so far have declined right after the reports were released. Also hurting the proceedings today is the weakness in the Dow Transports, which are being negatively influenced by poor reports from two trucking companies. On the positive side, some recently beaten down large technology companies are finally starting to do a bit better, which is why the Nasdaq/Dow ratio is actually holding up on the downside and this should hopefully limit the overall market losses.

It would now appear that the market is destined to trade in a range for the foreseeable future, with support coming in close to 10,000 on the Dow and it might be tough to exceed the recent highs around 10,700. We would advise people to trade accordingly, namely to take profits on rallies and wait to buy on declines, as it appears as if nothing is running away on the upside.

It should be noted that copper prices have now declined to a three month low on ongoing China concerns and the dollar is strengthening, which goes against the mantra of the up-days this week when stocks advanced as the Euro rose. Oil prices, which had made a tremendous surge earlier in the week, are declining a bit, which is once again negatively impacting the shares of energy stocks, which enjoyed a brief two-day respite from their recent downside miseries.

Daily Market Notes

This week's earnings lineup does not have the dramatic names that the last two weeks had, and the remaining roster for the week includes – tonight: AKAM, BRCM, CSCO, NVLS; Thursday: AGN, CI, DB, K, MA, MCO, PRI, SNE, TM; Friday: AET, BZH, TSN, WY.

The economic lineup includes the following: Thursday: December factory orders; Friday: the all-important January jobs report.

For the fourth quarter, the S&P companies are expected to show a profit gain of +76%, according to the consensus of analysts who follow these companies. But without the financials, which are expected to report gains of +120% just by themselves, according to analysts who follow financial firms because of the easy comparisons to the disastrous fourth-quarter of 2008, the balance of the companies will show profit declines of -2.5%, according to the analyst's estimates. So there is going to be real distortion here, and it therefore will become more important to look at the earnings of each company on an individual basis. According to the analysts, for 2010, earnings are projected to increase by +29%, followed by earnings increases of +22% in 2011.

After four consecutive quarters of negative G.D.P. growth which started in the third-quarter of 2008 and extended through the first two quarters of 2009, we now have gotten two consecutive quarters of positive growth, with the third-quarter at +2.2% and the first estimate of G.D.P. growth for the fourth-quarter at +5.7%.

Daily Market Notes

Disclosures

Don Selkin is the Chief Market Strategist at National Securities Corporation, member FINRA/SIPC, (NSC) and provides the Fair Value analysis for CNBC each morning. The commentary provided in this Market Letter is intended to provide our customers with timely market analysis and should not be considered a research report. This Market Letter may contain, and is limited to: Discussions of broad based indices; Commentaries on economic, political or market conditions; Technical analyses concerning the demand and supply for a sector, index or industry based in trading volume and price; Statistical summaries of multiple companies' financial data, including listings of current ratings; and, Recommendations regarding increasing or decreasing holdings in particular industries or securities. This Market Letter does not make a financial or investment recommendation or otherwise promotes a product or service of the firm. This Market Letter contains only news, facts, and commentary on information previously reported from a news source believed to be accurate and reliable by the author. These news sources include the following: {Bloomberg Financial, Reuters, Associated Press}. It is possible that at any given point in time, the author, NSC, or one or more of its employees or registered individuals associated with NSC, may hold a position, either long, or short, as well as options, bonds, or other instruments in the companies noted in this report. This Market Letter is intended strictly for current National Securities Corporation customers only.